

Analysis of Somalia's 2022 fiscal budget: A disparity in expenditure and revenue

Summary

The federal parliament of Somalia approved the 2022 fiscal budget in a joint session on June 30, 2022. As regulated by the public financial management act (2019), this budget approval would have occurred in December 2021; but the process was marred by the delayed elections. The Federal Government of Somalia's (FGS) fiscal budget for 2022 has increased from last year's actual spending of \$376.5 million to \$929.9 million in 2022. Furthermore, \$250 million (26%) of the total revenue is estimated as domestic revenue collection in 2022 while \$694.7 million (74%) will be an external support.

In addition, this donor dependent budget shows domestic revenue collection is not enough for the government to fund its huge expenditure in 2022. In the 2022 budget, the expenditures were divided into administration (37.9%), social service (35%), defense and security (18.3%) and economic sector (9%). Nevertheless, the FGS annual budget has increased with time in the last decade from \$20 million in 2012 to \$929.9 million in 2022.

However, this brief studies the discrepancies in the 2022 fiscal budget, in terms of expenditure and revenues with recommendations to address the gaps identified during the analysis.

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Introduction

The ending of the transitional period in 2012, the establishment of a legitimate parliament and subsequent election of a new government under the provisional constitution was a significant step for Somalia's public budgeting. The new constitution provides parliament with a power to approve the government budget. On December 2012, Somalia had its first formal annual budget in more than two decades. Since then, the federal parliament ratifies the executive proposed spending for the coming financial year.

Budget process in Somalia

Though the provisional constitution describes general principles of parliamentary approval; however, the legal framework for budgeting is primarily governed by the public Financial Management Act (2019). The budget calendar year runs from 1st January to 31st December. Each year, the executive through the Ministry of Finance presents a statement of revenues and expenditures for the coming financial year to the federal parliament for legislative review and approval before coming into law. Ideally, the budget translates a government's policies and objectives into decisions on how to mobilize revenues, and how to use this money to meet the country's competing priorities.

Background brief for 2022 annual budget

The federal parliament's mandated term expired on December 26, 2020, and Somalia went into a mixture of political

disarray and indirect electoral stalemate. The electoral impasse dragged for months and created a legislative vacuum in the country. However, the absence of a legitimate parliament resulted in the government not to endorse the 2022 fiscal budget in December 2021. The new MPs of the 11th federal parliament took oath of office on April 14 2022 followed by the elections of speakers for both chambers on April 26 and 27 respectively.

As the Federal Parliament was unable to adopt the national budget before the start of the fiscal year 2022, the public financial management act (article 22) allowed the government to activate a vote on account provisions for the first quarter of 2022 (January to March), to authorize continuation of government operations. The vote on account was based on the first quarter of the previous budget (2021).

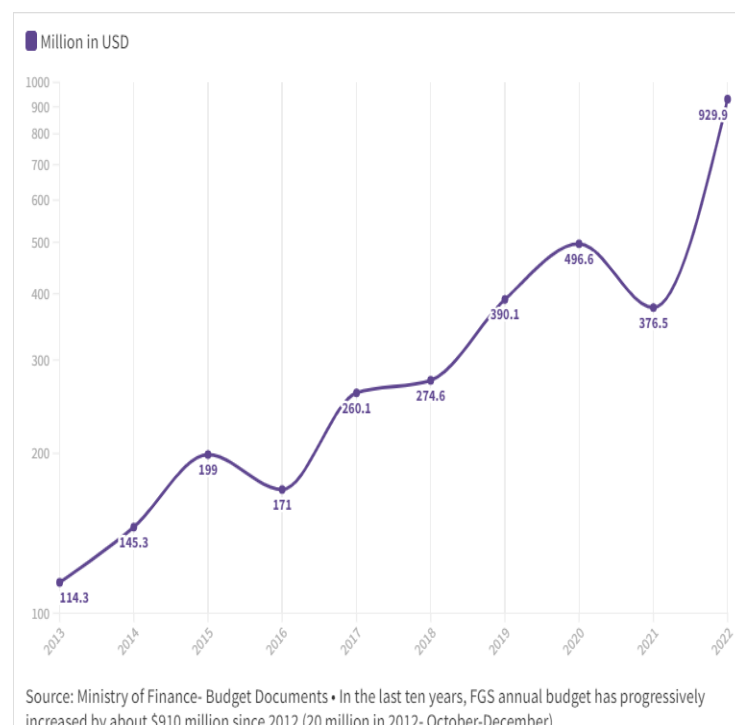
With expiry of vote on account authorizations and delayed parliamentary election completion, the caretaker council of ministers in March, approved a temporary budget allocations of \$206.5 million for second quarter of the fiscal year 2022 to run government operations with assumption of the new federal parliament will enact federal appropriation for 2022 in the mid-term review (supplemental budget). This is the second time the government activated the vote on account after December 2016 in which, similarly, the federal parliament failed to approve the government budget for 2017 due to a delayed election completion.

The caretaker cabinet endorsed in May, an amount of \$918.7 million for 2022

fiscal year. On June 12, former Minister for Finance Abdirahman Duale Beileh presented the 2022 budget in a joint federal parliament session (House of the People and Upper House). The federal parliament assigned a joint ad hoc committee to review the proposed budget and to submit a report to the joint session. After the submission of the joint Ad hoc committee review and analysis report, MPs grilled questions (which mainly concerned closing the account books of previous budgets) to then, caretaker Minister for Finance, Abdirahman Duale Beileh for three days in a row. On June 30, the federal parliament approved the 2022 budget while later forming a joint ad hoc committee to deal with the closing of accounts of previously approved fiscal budgets. Federal parliament failed to close audited expenditure reports from 2018 to 2021.

\$929.9 million is planned to be spent in 2022 fiscal year. This fiscal budget plans increased \$568.3 (151%) million from last year's actual expenditure of \$376.5 million. The 2021 fiscal budget saw a decline of \$120 million from the 2020 actual expenditure of \$496.5 million. Final endorsed budget by the federal parliament increased 11.2 million to the earlier executive submitted \$918.7 million proposal. However, the joint Ad hoc committee who revised the budget, noted in their report that changes were made to some expenditure heads as well as additions of new money which was not included earlier in the revenue estimates after the executive submission of the budget. The committee report further highlighted that the new expenditure changes occurred in the presidency office, drought response efforts (which also comes

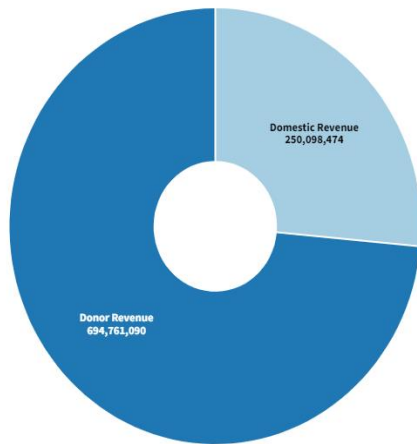
under the presidency) parliament, ministry of religious affairs and endowment, NISA, SNA, procurement and concessions commission, supreme court and the attorney general office; as well as some projects waived expenditures for goods and services.



Revenue status in 2022 fiscal budget

The budget comprises two components which are revenue and expenditure. However, in 2022, \$250 million (26%) of the whole revenues will be mobilized through tax and non-tax revenues. The 2022 estimated domestic revenue increased \$20.5 million (9%) from last year's actual raised revenue of 229.5 million, though initially hoped to collect 260.1 million as domestic revenue in 2021.

Domestic Revenue Donor Revenue



Source: Ministry of Finance- Budget Documents • In 2022, Somalia government expects only to cover (27%) expenditure while the remaining (73%) will be covered through bilateral or multilateral support.

The Federal Government of Somalia (FGS) will receive \$694.7 million external revenue for the 2022 fiscal budget of which \$209.2 million (22%) as bilateral, and \$485.4 million (51%) through multilateral support to supplement domestic revenue.

This presents a growth of \$547.7 million (373%) from last year’s actual received external support of \$146.9 million. FGS initially envisioned to raise \$411.7 million as external revenue in the 2021 fiscal year but failed to collect all.

This decline may be attributed to the political deadlocks in 2021 where many external donors suspended budgetary support to Somalia due to the electoral impasse. Furthermore, in 2022, Somalia government expects to fund (27%) of its expenditure while the rest (73%) will be financed through bilateral or multilateral support.

The 2022 budget motto of “Reliance on our domestic revenue” and realities on the ground sound different. The 2022

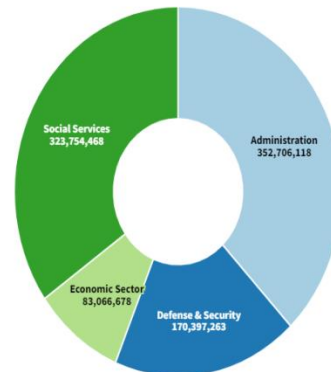
fiscal year shows a disparity in revenues as Somalia expects to receive more external donor support to meet demanding priorities. The federal budget reached its highest numbers in a decade; however, it mirrors discrepancies in revenue generation where the external funding takes the biggest share (74%) while the domestic revenue mobilization has not gained any notable improvement. The federal government’s domestic revenues mostly come from Mogadishu as the reach of the tax authorities beyond the capital city is limited.

Sector allocations in the budget

The 2022 budget distributed expenditures in four areas of administration \$352.7 million (37.9%), defense and security \$170.3 million (18.3%), social services \$323.7 (35%) and economy \$83 million (9%). 70 MDAs (ministry, department, agencies) under these four areas, share the spending amount of \$929.9 million. The biggest share of the budget which is \$352.7 million (37.9%) goes to the administration sector expenditures.

Administration Defense & Security Economic Sector Social Services

FY 2022 in USD



Source: Ministry of Finance- Budget Documents • The 2022 budget allocates the expenditures in four sectors. Under these four sectors, 70 MDAs (ministry, department, agencies) divide the allocations of \$929.9 million.

The social sector spending in 2022

In 2022 fiscal budget, \$323.7 million (equivalent to 35% of the entire budget) is assigned for the service delivery ministries. Among the ministries fall under this category are the Ministry of Labor and Social Affairs, the Ministry of Education and Higher Education, the Ministry of Health, the Ministry of Women and Human Rights Development and the Ministry of Youth and Sport. In 2022, the social sector figures saw a growth of \$243.3 million (302%) from 2021 actual numbers of \$80.4 million. In 2017, the allocations for all service delivery ministries were \$8.3 million (3.2%) of the entire budget. Social expenditure has continued to increase since the 2018 national budget in dramatic change.

In recent years, Somalia received funds for the service delivery programming. This funding is attributed to the social sector budgetary increase. In 2022 fiscal budget, \$231.7 million is budgeted for the Ministry of Labor and Social Affairs. This represents a \$191.1 million rise from 2021 actual budget of \$40.6 million. Though this big increase occurred at the ministry, the majority of the funds, \$229.9 million will be spent on social development programming while a small amount of \$1.7 million planned for ministry administration which includes salaries, allowance for staff, goods and services.

Furthermore, the Shock Responsive Safety Net for Human Capital, (also known as Baxnaano) under the delivery of the Ministry of Labor and Social Affairs will get \$157.2 million. The Baxnaano program funded by the World Bank is to provide cash transfers to targeted poor and vulnerable

households and establish the key building blocks of a national shock-responsive safety net system.

According to federal government projections, the program is anticipated to reach 200,000 poor and vulnerable households in selective districts across all the Federal Member States of Somalia. Moreover, the Shock Responsive Safety Net for Locust response project receives \$72 million to respond to the locust outbreak by providing emergency cash transfers to around 100,000 poor and vulnerable rural locust affected households (approximately 600,000 individuals) while the remaining allocations of \$700 thousand goes to the UN projects at the ministry.

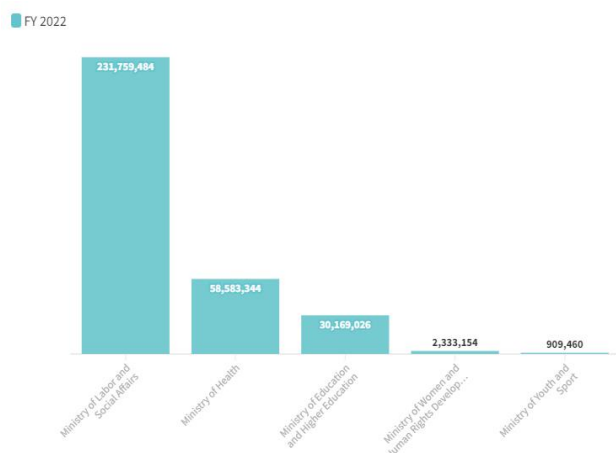
In addition, \$58.5 million is planned for the Ministry of Health to spend in 2022 fiscal year. However, this accounts for a growth of \$37.4 million from 2021 actual budget of \$21.1 million. The largest share (\$54.84 million) of the Ministry of Health money is distributed to service delivery programming of which most notable are Damal Caafimaad, Somalia COVID-19 Emergency Vaccination, Somalia Crisis Recovery and Recurrent Cost Reform Financing (RCRF III), while a small percentage (\$3.66 million) is budgeted for administration related expenses such staff salaries, allowance, goods and services.

Furthermore, under the social service, \$30.1 million was appropriated for the Education portfolio in the 2022 budget. It captures a difference of \$12.8 million (74%) from last year's actual spending of \$17.3 million. In spite of this increase, \$20.5 million was planned for the Ministry of Education, Culture and

Higher Education to finance administration related expenditure and service delivery programs. The rest of the budget was distributed to the Somali National University \$7.2 million, the Somali Academy of Science and Arts \$1.1 million, and the Intergovernmental Academy of the Somali Language \$1.4 million.

In addition, \$2.3 million was given to the Ministry of Women and Human Rights Development. This shows a surge of \$1.5 million from 2021 actual financing of \$752,836.00. The Ministry is partnered with several UN agencies (UNICEF, UNFPA, and UN Women) which will finance some developmental projects in the 2022 fiscal years.

Finally, under the social service sector, the Ministry of Youth and Sports received less than a million dollars (\$909460) in the 2022 budget. It even highlights a minor increase from 2021 actual expenditure of \$752836 (\$338,176.00 additional in 2022). However much social spending went up, the Ministry of Youth and Sports did not attract the growing budgetary allocations, experienced by other social ministries in recent years.



Source: Ministry of Finance- Budget Documents • The 2022 fiscal budget allotted \$323.7 million for the service delivery ministries.

Defense and security allocations in 2022

An amount of \$170.3 million, equivalent to (18.3%) of the whole fiscal expenditure in 2022, is planned to finance the defense and security sector. It also highlights an increase of \$10.4 million (7%) from the actual spending of \$159.9 million in 2021. However, \$99.2 million is distributed to the Ministry of Defense (\$1.2 million,) Somali National Army (\$96.4 million), Military Court (\$1.4 million) and Orphans and Disabled agency (\$115,000) while on the other hand, \$71.1 million is divided to Ministry of Internal Security (\$1.5 million), Somalia police (\$45.9 million) NISA (\$18.5 million), as well as Immigration and Naturalization Department (\$5 million).

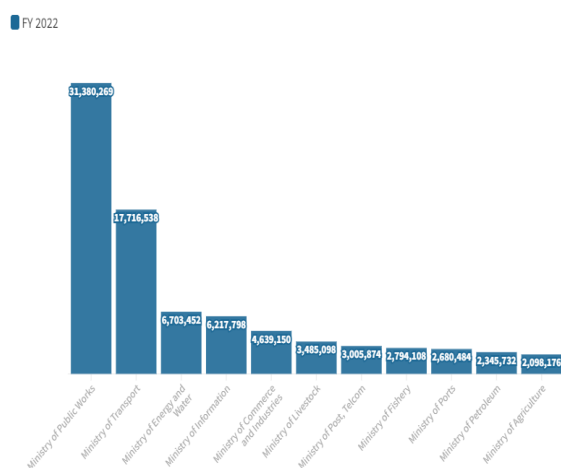
Although, the defense and security budget was growing up since 2013, and almost one-fifth (1/5) of the entire fiscal budget in 2022, Federal Government of Somalia still dependent of ATMIS (previously AMISOM) for security and protection of key government leadership and installations including Villa Somalia, Aden Adde International Airport and Mogadishu seaport. From an accountability perspective, what remains in citizens' mind is the question of what is the value for money in spending this high percentage to this sector where vast areas of the country are controlled by the insurgent groups and Mogadishu still experiences insecurities in the last 15 years.

Economic sector

In 2022, \$83 million (9%) of the whole fiscal budget was assigned to the revenue generating ministries. However, there is recognition of \$44.3 million

(115%) growth from the actual expenditure of \$38.6 million in 2021.

Under this portfolio, \$31.3 million is projected for the Ministry of Public Works and Reconstruction followed by the Ministry of Transport inclusive of the aviation agency with \$17.7 million. The rest of the ministries in this category will receive less than ten million figures in the 2022 appropriation. In addition, \$45 million (54%) of the total portfolio budget goes to the administration of the ministries while the rest, \$37.9 million (46%) is allocated for developmental projects. The below chart will detail figures proposed for each ministry.



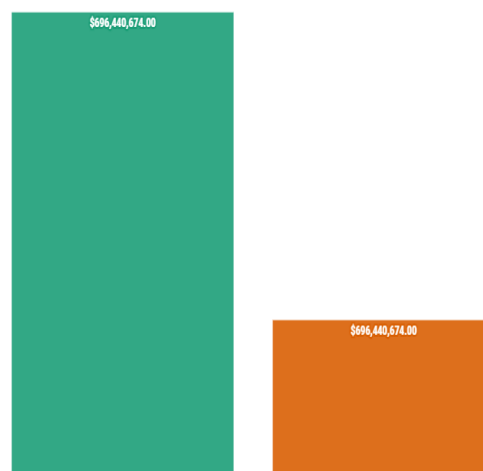
Source: Ministry of Finance-Budget Document • In this portfolio, two ministries took highest figures (\$49 million) in the 2022 budget while the rest of the ministries are distributed (\$33.9) million.

Though the budget numbers in all sectors, and in particular economic and social portfolios, made improvement in recent years, there are still inconsistencies in domestic revenue mobilization when compared to the recent surge of external donor support. For Somalia to reach the debt relief completion point, it should increase its domestic revenue to be able to finance both recurrent and developmental projects which are now partially supported by foreign donors.

Recurrent v capital spending in 2022 budget

Though the Federal Government of Somalia (FGS) budget increased progressively over the years, it is noteworthy to indicate that the majority stake of the 2022 annual budget is dominated by administrative and recurrent expenses, with little allotted to the public services delivery. Of the \$929.9 million budgeted for the fiscal year, a total of \$696.4 million (this includes administrative and recurrent expenses for projects), equivalent to (74%) will be spent on recurrent expenditure mainly on public sector salaries, allowances, and operational costs while \$233.4 million (25%) of the total expenditure will go to the capital projects. Additionally, FGS will spend \$423 million (45%) of total 2022 budget on identical goods and services expenditure across all the budgeted entities. Among these services are rent, office material, fuel and lubricants, repairs and maintenance, travel, meeting expenses, fixed items, utilities, education and advisory services and so on.

Operating budget including projects Special projects budget



Source: Ministry of Finance-Budget Documents • In 2022, \$696.4 million (this includes administrative and recurrent expenses for projects) will be spent on recurrent expenditure mainly on public sector salaries, allowances, and operation cost while \$233.4 million (25%) of the total expenditure will go to service delivery programs.

Furthermore, if this disparity continues to exist in the fiscal budget, capacity of FGS to address vulnerability and support longer term recovery, development and livelihoods of the public will be minimal. However, this points to the need for the FGS to strengthen the institutional capacity and generation of more domestic revenue to scale-up the demanding priorities in the public service delivery.

On the other hand, as the FGS recurrent expenditure improved in the last five years, however, the federal government has not recruited civil servants since 2016. The FGS has less than six thousand official public employees in the civil service pay system.

Going forward

Since 2013, FGS fiscal budget has gradually gone up from \$20 million in 2012 to \$929.9 million in 2022. Furthermore, this immense growth deserves recognition, as the federal government drives towards improving social service delivery and as well as domestic revenue mobilization.

However, it is worth mentioning that the assumptions built on the budget increase illustrate otherwise. When comparing the dramatic rise of the budget (anticipated revenues in past years) to the actual collected, it indicates that the figure increases are built on unrealistic scenarios.

With Somalia only able to mobilize \$376.5 million of revenues out of an anticipated \$671 million in 2021, this clearly proves that the whole budget projections are based on irrational forecasts. Furthermore, the 2022 budget document indicates that the federal government made an expenditure of

\$459.8 million in 2021 while the actual revenue collected stood at \$376.5 million; however, this shows that the government borrowed \$83 million to cover these expenses.

Despite Somalia's strong commitment to domestic revenue mobilization reforms and harmonization efforts and the steady progress achieved so far; domestic revenues in the country still remain low.

Furthermore, Somalia to be able to finance the country's human capital, infrastructure, and public service delivery needs, the federal government should build domestic revenue mobilization capacity at both the customs and Inland Revenue administrations.

Finally, the federal government should develop an inter-governmental fiscal mechanism to harmonize the tax tariffs. This will be a significant push for Somalia to boost the domestic revenue collection, as this is a vital milestone for the country to meet requirements for the completion point, for the Heavily Indebted Poor Countries (HIPC) debt relief process.

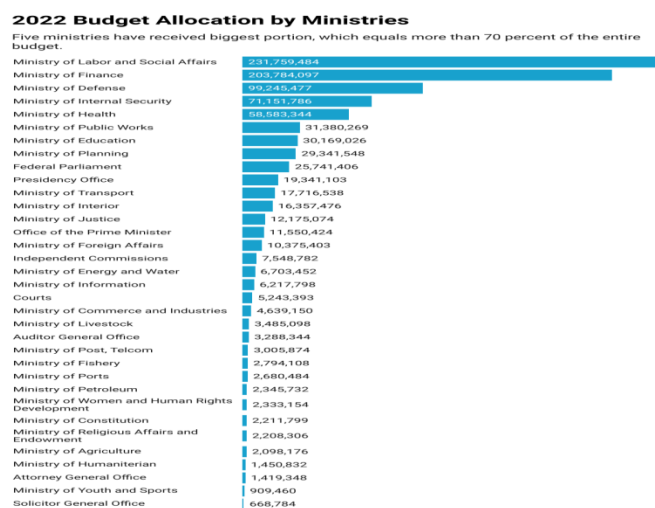


Chart: Baraan Associates - Source: Ministry of Finance: Budget documents - Created with Datawrapper

About Barsan Associates

Barsan Associates is a multidisciplinary development organization operating in Somalia, with a presence in Nairobi. Barsan offers wide range consulting services and technical assistance to its distinct local and international clients including NGOs, government institutions, donor agencies and private sector.

For more details, please contact us info@barsan.so or visit our website at www.barsan.so
